SASKATCHEWAN MINERALS

1985 ANNUAL REPORT

86-03334/

ANNUAL REPORT

of

SASKATCHEWAN MINERALS

OF THE

PROVINCE OF SASKATCHEWAN

for the

Year Ending December 31, 1985

Saskatchewan Minerals

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25 March, 1986

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of Saskatchewan Minerals for the year ending December 31, 1985 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act, 1978.

I have the honour to be, Sir,

Your obedient servant,

Joan H Duncan

Joan H. Duncan
Minister Responsible
Chairman of the Board
Saskatchewan Minerals

BOARD OF DIRECTORS

Honourable Joan H. Duncan
Chairman of the Board
Regina, Saskatchewan

Robert Berry
Central Butte, Saskatchewan

Martin Chabot
Zenon Park, Saskatchewan

Richard Gleim
Chaplin, Saskatchewan

Merlin Materi
Fox Valley, Saskatchewan

Sylvia Batt
Corporate Secretary
Crown Management Board
Regina, Saskatchewan

MANAGEMENT

J. C. Mills
General Manager

T. D. Lavineway
Director of Marketing

G. M. Krantz
Director of Operations

L. A. Mason
Director of Finance & Administration

G. F. Miller
Director of Research & Engineering

SASKATCHEWAN MINERALS
ANNUAL REPORT
1985

The operations of Saskatchewan Minerals during the year ended December 31, 1985 resulted in net earnings of $1,416,768. Total net earnings since the inception of the Corporation now stand at $46,010,671.

Marketing and Sales

Sales of Sodium Sulphate declined slightly more than expected with a drop in tonnage of 9.5% and in revenue of 11.1%.

The overall demand in Canada for Western Canadian Sodium Sulphate improved over the previous year with the increase being in Detergent Grade material. There was a very small drop in sales of Kraft Grade Saltcake to Canadian consumers.

Our sales to Canadian accounts were up by 40.9% while export sales were down by 24.1%. Shipments to offshore accounts amounted to 5.4% of the total export sales and were up by 17.2% over last year.

While the United States economy was very strong during the year their pulp industry did not do as well and sales to the United States market continued to decline even though one more by-product producer closed down during the year. The sale of Mexican material to the United States market was also down from the previous year. Emulsified sulphur and caustic soda continued to replace Saltcake in the kraft pulp industry although some pulp mills have returned to using saltcake.

Because of the closure of the Allied Chemical plant at Baltimore a tight situation in Saltcake in the Southeast was developing by year end but the prevailing prices were too low for Canadian producers to participate in that particular market area.

As expected, sales from Western Canada to the United States detergent market were down primarily due to one major consumer reducing their requirements.

Our sales to the kraft pulp industry declined by 14.9% while sales to the glass industry were down by 5.1%. Sales to the detergent industry were down by 7.8% but sales to the mineral feed industry were up by 114.9%.

During 1985 freight rate increases in Canada amounted to 6% to the East and 2% to the West. On shipments to the United States there was one freight rate increase of 5% plus increases of 2% and 3% depending on the routing in the United States.

Deregulation of the railways in the United States has created many marketing possibilities but it has also increased competition. It appears that the railways in Canada are going to be deregulated in the near future creating a similar situation as in the United States.

It would appear that in 1986 we will see a further decline in the sale of kraft grade saltcake but an increase in our sales of detergent grade product. There will continue to be an ample supply of by-product material plus other saltcake substitutes in the market place throughout the year. We are forecasting an overall increase of 1.3% in sales tonnage.

Production

Due to depressed market conditions the Sybouts and Bishopric plants remained closed during the year.

At Chaplin total production tonnage was down by 12.2% when compared with 1984. As there were a few very cold days during draining in 1984 ice formed in our reservoirs and we were forced to harvest the ice along with our raw material. This resulted in higher natural gas costs and a lower average daily production rate. There was no detergent grade product produced at Chaplin during the year.

Due to the lack of water during the year on our lake our pumping was limited to three reservoirs which resulted in a lower harvest of raw material this past winter.

At Ingebrigt total yearly production was down by 15.6% from 1984. The plant continued to produce satisfactorily and the quality was high. The new dredge commenced production in July and apart from some start up problems has been operating very well. For the first time brine from the dredge, after the crystal was removed, was pumped to a settling area. The insoluble material settled out and the clear brine flowed into the reservoir. As this is a higher density brine than that pumped directly from the lake, there was an increase in reservoir material available for harvest.

Adequate supplies of raw material at both plants are available to meet expected sales during 1986.

Peat Moss Division

An improvement in the operations of the Peat Moss Division was experienced with sales increasing by 7.1% and gross revenues up by 17.9%. The average selling price per bale was up by 10.2% while the average unit cost was down by 1.7%. Weather conditions were far from ideal in the Carrot River area with one of the wetter summers on record. The moss harvest was restricted because of the moisture and this resulted in higher harvesting costs. With the carryover on the bog of moss harvested in 1984 adequate supplies are available for expected sales.

We are forecasting a continued improvement in sales and revenues for 1986.

Earnings

The overall net earnings of the Corporation amounted to $1,416,768.

Total assets of the Corporation now stand at $21,394,447.

Engineering and Research

Activities continued in our search for the most desirable method to reduce energy cost within the dehydration system at Ingebrigt. Some minor process changes including recrystallization of reservoir collected Glauber's salt with consequent discontinued usage of the centrifuge insoluble removal stage has contributed to a higher production rate and improved unit costs. Design work is continuing on dehydration changes there. In 1987 we expect to significantly increase the quantity of reservoir brine

Glauber's salt available to us in conjunction with recycling of higher density brine from the dredging operation.

Further high quality test runs are planned for Chaplin in 1986 and it is likely that some detergent grade production will be marketed.

Personnel

As at December 31, the Corporation employed a total of 166 people which is down 17 from a year earlier. With the continuation of depressed Sodium Sulphate sales we reduced seven positions in this Division by attrition and have cut back to one production shift in the Peat Moss Division.

The Employees in the Sodium Sulphate Division are represented by the Energy & Chemical Workers Union Local 678, and their contract continues through to April 30, 1986.

A revised two-year agreement to expire May 31, 1987 was negotiated with the Employees of the Peat Moss Division who are represented by the International Woodworkers of America Local 1-184.

Special Employee training in 1985 consisted of two Employees completing their apprenticeship programs, 14 Employees successfully completing the St. John's Ambulance First Aid Course, seven Employees attending the Industrial Safety Course sponsored by the Saskatchewan Safety Council and one Employee continuing at University on education leave.

The Safety Award Program for employees of the Sodium Sulphate

Division has helped to reduce the number of lost time accidents by 64% in 1985. A similar program was also implemented for the Employees in the Peat Moss Division in 1985 where lost time accidents were reduced by 38%. During a recent review of the Safety Committee they have set an objective to reduce lost time accidents by 50% in the coming year. The implementation of safety awards alone cannot achieve results but requires the continued support of conscientious and safety minded Employees. We are proud of the 1985 achievements and must commend the entire staff for their co-operation.

General Statistics

Saskatchewan Minerals has made the following direct contribution to the Saskatchewan economy:

	During 1985	Since Inception
Salaries and Wages	$ 5,501,944	$ 56,114,410
Grants in Lieu of Taxes	$ 213,096	$ 1,978,060
Royalties	$ 802,901	$ 11,352,994
Dividends paid to Crown Investment Corporation	$ --	$ 40,030,906

On behalf of the Owners and Directors of the Corporation, I wish to express our sincere appreciation to all Corporation Employees for their dedicated efforts in 1985.

J. C. Mills
General Manager

Burroughs, Weber, Gross, Downs & Heppner

Chartered Accountants

R.J. Weber, B. Comm., C.A.
E.G. Gross, C.A.
A.E. Downs, B. Comm., C.A.
E.K. Heppner, C.A.
A.E. Lightfoot, B. Comm., C.A.

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AUDITOR'S REPORT

To the Members of the Legislative Assembly
Of the Province of Saskatchewan

We have examined the Statement of Financial Position of Saskatchewan Minerals as at December 31, 1985, the Statements of Income and Retained Earnings, and Changes in Cash Resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1985 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Burroughs, Weber, Gross, Downs & Heppner

Chartered Accountants

February 6, 1986

SASKATCHEWAN MINERALS

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	1985	1984
ASSETS		
CURRENT ASSETS		
Cash	$ 1,020,624	$ 666,545
Accounts receivable	2,569,538	2,531,335
Inventories [Note 3]	3,433,201	3,814,203
Prepaid expenses	22,602	14,410
	7,045,965	7,026,493
PROPERTY, PLANT AND EQUIPMENT [Note 4]	14,226,415	14,378,209
DEFERRED CHARGES, NET OF AMORTIZATION	122,067	271,611
	$21,394,447	$21,676,313
LIABILITIES AND PROVINCE'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,574,682	$ 1,567,509
Due to Crown Investments Corporation [Note 5]	1,900,000	3,065,807
Current portion of long-term debt [Note 6]	540,000	540,000
	4,014,682	5,173,316
LONG-TERM DEBT [Note 6]	8,000,000	8,540,000
PROVINCE OF SASKATCHEWAN'S EQUITY		
Advances [Note 7]	3,400,000	3,400,000
Retained earnings	5,979,765	4,562,997
	9,379,765	7,962,997
	$21,394,447	$21,676,313

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	1985	1984
REVENUE		
Sales of product	$20,081,860	$21,800,765
Other	219,402	129,152
	20,301,262	21,929,917
EXPENSES		
Operating costs, other than those shown below	13,808,986	13,670,857
Selling and administrative	2,592,166	2,692,320
Depreciation and amortization	1,301,015	1,332,240
Interest [Note 8]	1,182,327	1,102,885
	18,884,494	18,798,302
NET EARNINGS	1,416,768	3,131,615
RETAINED EARNINGS, BEGINNING OF YEAR	4,562,997	2,997,189
	5,979,765	6,128,804
DIVIDENDS TO CROWN INVESTMENTS CORPORATION	-	1,565,807
RETAINED EARNINGS, END OF YEAR	$ 5,979,765	$ 4,562,997

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF CHANGES IN CASH RESOURCES

FOR THE YEAR ENDED DECEMBER 31

	1985	1984
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 1,416,768	$ 3,131,615
Charges (credits) to operations not involving cash		
Depreciation	1,331,375	1,381,489
Amortization of deferred charges	149,544	148,909
(Gain) loss on sale of fixed assets	(112,631)	5,192
	2,785,056	4,667,205
Net change in non-cash working capital balances related to operations	(824,027)	(293,905)
Cash provided by operating activities	1,961,029	4,373,300
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(1,338,050)	(2,321,346)
Proceeds from disposal of property, plant and equipment	271,100	19,222
Cash used in investment activities	(1,066,950)	(2,302,124)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Repayments of long-term debt	(540,000)	(540,000)
Dividends	-	(1,565,807)
Cash used in financing activities	(540,000)	(2,105,807)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	354,079	(34,631)
CASH POSITION AT BEGINNING OF YEAR	666,545	701,176
CASH POSITION AT END OF YEAR	$ 1,020,624	$ 666,545

See accompanying notes

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1985

1. SUMMARY OF ACCOUNTING POLICIES

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's financial statements.

- INVENTORIES

Finished product and raw material inventory are valued at the lower of average cost for the year and net realizable value. Inventories of materials and supplies are valued at the lower of cost and replacement cost.

- DEFERRED CHARGES

These items represent:

a) pre-operating and pre-aquisition costs incurred at the Sybouts Plant prior to start up which will be charged to operations during 1986 and 1987; and

b) debenture loan charges which will be amortized over the term of the debentures.

- PROPERTY, PLANT AND EQUIPMENT

The costs of maintenance, repairs and minor renewal or replacements are charged to operations as they arise. The costs of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

- DEPRECIATION AND AMORTIZATION

Property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives on a straight line basis over the following periods:

Buildings	10 to 30 years
Machinery and equipment	10 to 20 years
Office and safety equipment	5 years
Ditch lines, reservoirs, pipelines, spur tracks and platforms	10 to 20 years
Trucks	5 years

Bog development, mining leases, and sodium sulphate deposits at the Sybouts Plant are amortized on the unit of production method over the estimated useful productive life of the asset.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

FOREIGN EXCHANGE TRANSLATION

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect for that day.

Foreign currency monetary items are translated to Canadian dollars at the exchange rate in effect at the year end.

2. STATUS OF SASKATCHEWAN MINERALS

Saskatchewan Minerals was established by Order-in-Council 724 in 1945 with numerous amendments subsequent to that date. The corporation continues under the provisions of The Crown Corporations Act, 1978. The accounts of the corporation are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan.

3. INVENTORIES

The inventories of the corporation are comprised of:

	1985	1984
Finished product	$ 1,162,527	$ 1,343,632
Raw material	1,582,405	1,899,616
Material and supplies	688,269	570,955
	$ 3,433,201	$ 3,814,203

4. PROPERTY, PLANT AND EQUIPMENT

	- 1 9 8 5 -			1984
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 29,325	$ -	$ 29,325	$ 29,325
Buildings	5,786,679	2,512,076	3,274,603	3,504,318
Machinery and equipment	19,029,030	9,419,214	9,609,816	9,479,640
Leases and licenses	275,000	173,818	101,182	118,928
Ditch lines, reservoirs, pipelines, spur tracks, bog development, platforms and other	1,856,786	645,297	1,211,489	1,245,998
	$26,976,820	$12,750,405	$14,226,415	$14,378,209

5. DUE TO CROWN INVESTMENTS CORPORATION

	1985	1984
Dividend payable	$ -	$ 1,565,807
Loan	1,900,000	1,500,000
	$ 1,900,000	$ 3,065,807

6. LONG-TERM DEBT

	1985	1984
Crown Investments Corporation #1	$ 3,000,000	$ 3,000,000
#2	5,000,000	5,000,000
#3	540,000	1,080,000
	8,540,000	9,080,000
Less amount due within one year	540,000	540,000
	$ 8,000,000	$ 8,540,000

The principal #1 is due December 21, 1988 with interest payable semi-annually at 10 3/4% per year.

The principal #2 is due December 29, 1987 with interest payable semi-annually at 11 3/4% per year.

The principal #3 is due on September 30, 1986 plus interest at a prime related floating rate.

7. ADVANCES FROM CROWN INVESTMENTS CORPORATION

These advances represent the net capital contributions by Crown Investments Corporation of Saskatchewan to the Corporation since its inception. These advances are repayable at the discretion of Crown Investments Corporation of Saskatchewan and do not bear interest.

8. INTEREST EXPENSE

	1985	1984
Long-term	$ 1,169,539	$ 1,089,402
Bank charges and demand loan	12,788	13,483
	$ 1,182,327	$ 1,102,885

9. DIRECTORS AND SENIOR OFFICERS

The corporation's six directors received from Saskatchewan Minerals, in aggregate, $4,350 during 1985 (seven directors 1984 - $2,025).

The five senior officers received, in aggregate, $295,320 in salaries for 1985 (five officers 1984 - $291,000).

10. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

11. CONTINGENCIES

The corporation is the defendant to two unresolved statements of claim. Management is of the opinion, as confirmed by legal counsel, that the claims can be successfully defended and accordingly no provisions have been made in the accounts. Any costs incurred will be accounted for in the period in which the claims are resolved.